Loan and Borrowing Policy

Moreland City Council

Date Authorised by Council:	9 June 2022
Commencement Date:	9 June 2022
Review Date (10 years from authorised date):	June 2026
Responsible Department	Business Transformation

Contents

Introduction

The purpose of this policy is to provide the appropriate parameters for Council to undertake borrowings without compromising the application of sound fiscal management principals. The policy framework allows Council the flexibility to respond to funding requirements while minimising risk.

The borrowing policy ensures that Council has a sound financial framework on which to:

- undertake borrowings;
- manage its loan portfolio; and
- adhere to the provisions of the *Local Government Act 2020* (LGA).

This policy applies when Council is considering and determining the annual budget and will be adhered to when reviewing Council's 10-year Financial Plan.

Council officers must apply this policy when:

a. Considering new borrowings and;

b. Refinancing existing borrowings (where the long-term benefits of refinancing are greater than the cost of the existing loan).

Context

Councils must implement the principles of sound financial management. This includes managing financial risks; pursue spending and policies that are consistent with a reasonable degree of stability; and that decisions are made with future generations in mind and ensure the disclosure of financial information.

Alignment

This document aligns with the following policies, strategies and plans:

- Council Plan
- 10-year Financial Plan
- Borrowing Strategy.

Organisational Context

This policy applies to all interest-bearing funding arrangements entered into by Council. It does not include lease liabilities. Short term, non-interest bearing, debt such as creditors and corporate credit card programs are excluded from this policy.

Objectives

Council's borrowings are to be conducted in a manner that is consistent with the following objectives:

- To provide an alternative financing option for capital works projects that are of strategic significance;
- To ensure the total amount of loan borrowings is sustainable in terms of ability to meet future repayments, budgetary constraints and prudential ratios;
- To ensure that the appropriate level of funds are available at the appropriate time to support its strategic objectives;
- To develop and maintain a borrowing structure that achieves a balance between predictability and flexibility and aims to minimise borrowing costs;
- Consider the optimum time to borrow, considering interest rates, construction cost inflation rates, and economic stimulus issues;
- Be financially responsible and prudent in borrowing matters ensuring that all risks are managed appropriately;
- Minimise its costs of borrowings;
- To meet Council's obligations in relation to future defined benefit calls, if required; and
- Council's funding activities are to be in accordance with legislative responsibilities.

Policy details

LEGISLATIVE FRAMEWORK

The *Local Government Act 2020 (The Act)* provides Councils the power to borrow.

Section 11 (2l) of the Act states that a Council has 'the power to borrow money.'

Section 104 of the Act states: 'A Council cannot borrow money unless the proposed borrowings were included in the budget or a revised budget.'

The Victorian Government established the Local Government Performance Reporting Framework (LGPRF) in 2014. It outlines the measures Council must report in its performance report, which forms part of Council's Annual Report.

Certain indicators must also be included in Council's Annual Budget and Strategic Resource Plan (SRP). This framework includes financial performance of a Council, and specific to this policy includes measures in relation to Council's obligations (to determine whether debt and other long-term obligations are appropriate to the size and nature of Council's activities).

BORROWING PRINCIPLES

The following principles have been set to ensure Council has a structured and disciplined approach to borrowing of funds that fit with a longer term financially sustainable framework:

- Borrowings are only to be used to finance items described in the policy objectives;
- Borrowings need to be linked to the financing of an identified project and not be drawn down until the commencement of the project;
- New borrows are not to be undertaken if they lead to Council entering the "high-risk" category in the risk assessment matrix;
- Borrowing based sustainability ratios must not be exceeded;
- Priority is given to projects with above loan repayment returns;

- Loan duration is not to exceed the lesser of 10 years or the life of the asset (unless related to the repayment of a Defined Benefits Superannuation Call);
- Council will not borrow to fund operating expenditure (other than Defined Benefit Superannuation Calls) or asset renewal requirements;
- Council will actively seek to reduce interest payable;
- If Council were to enter an "interest-only" repayment schedule, an amount equivalent to principal repayments must be deposited to a cash reserve over the life of the loan to fund the principal repayment when it falls due;
- All borrowings will be considered as part of Council's Long-Term Financial planning using sound financial management principles; and
- The nature of any borrowings (short or long term) and the interest rate (fixed or variable) will consider the purpose of the loan and seek to balance interest rate exposure with refinancing flexibility.

INTER-GENERATIONAL EQUITY FUNDING

The Council shall consider equity between generations of ratepayers (inter-generational equity) whereby the mechanisms to fund specific capital expenditure take into account the ratepayers who benefit for the expenditure and therefore, on a user pay basis, who should pay for the costs associated with such expenditure.

However, this principle shall not be applied where it would be to the detriment of sound financial management.

In general, debt levels should be minimised to allow future councils the opportunity to borrow in future years for capital works arising in those future periods without being impeded by large borrowings by an earlier council.

BORROWINGS RATIOS AND LIMITS

Victorian Auditor-Generator's Office reviews and reports on the financial sustainability of the Local Government sector. Two indicators best assess the financial sustainability risks associated with borrowing. Moreland will report on the following indicators:

Risk Assessment Matrix

Indicator	Measure	Description	Low Risk	Medium Risk	High Risk
Internal financing	Net operating cashflow / Net capital expenditure	This measures the ability of an entity to finance capital works from generated cash flow.	>100%	75-100%	<75%
Indebtedness	Non-current liabilities / Own source revenue	Comparison of non-current liabilities (mainly comprising borrowings) to own-sourced revenue. The higher the percentage, the less the entity can cover non-current liabilities from revenues the entity generates itself.	<40%	40%-60%	>60%

These measures are reported on in the 4-Year Annual Budget, 10-Year Financial Plan & Annual Report.

In addition, the Local Government Performance Reporting Framework (LGPRF) borrowing ratios will be projected in Council's 4-Year Annual Budget, 10-Year Financial Plan and reported in Council's Annual Performance Report.

BORROWING ARRANGEMENTS

When entering borrowing arrangements, Council will seek to minimise interest costs over the over the long-term without introducing undue volatility in annual interest costs. Council's borrowings will be appropriately structured to constrain risk and will be consistent with the following parameters:

- Council will only seek to borrow funds from the Treasury Corporation of Victoria (TCV);
- The tenure of a loan will not be greater than the expected useful life of the asset being funded by the loan (unless related to the repayment of a Defined Benefits Superannuation Call);
- Council intends to maintain a repayment schedule consistent with "principal and interest" repayment calculations; and
- Loan repayments will be made in a regular schedule, such as quarterly, semi-annually or otherwise determined at the time of entering the loan agreement (consideration should be given to efficiency of payment while minimising interest costs).

Monitoring, Evaluating and review

Adherence to this policy is the responsibility of the Chief Financial Officer and evaluated and reviewed on an annual basis.

Roles and responsibilities

Who	Responsibility
Council	All borrowings are to be approved by Council by way of inclusion in the 4-year adopted budget or revised budget
Chief Financial Officer	Responsible for ensuring policies and procedures are followed when borrowing funds
	Ensuring all new borrowings are included as part of the 4-Year Budget
	Responsible for determining if a new revised budget is required in accordance with the *Local Government Act 2020*
Financial Accounting Coordinator	Developing and maintaining a loan register
	Developing and maintaining individual loan schedules for each loan facility
	Assisting with budget calculations and information for proposed new borrowings
	Regular review of borrowing ratios and levels in accordance with this policy

Definitions

Term	Definition
Borrowings	Cash received from another party in exchange for future payment of the principal, interest and other financial charges
Borrowing Costs	Interest and other costs that an entity incurs in connection with the borrowing of funds
Capital Project	A long-term project requiring relatively large sums to acquire, construct and/or renew a capital asset (e.g. buildings). The project would result in a new, expanded or replaced asset.
Debt Portfolio/Loan Book	The total sum of all of Council's borrowings

Interest Bearing Loans and Borrowings	A loan or borrowing in which the debt is expressed as a principal amount and interest is calculated, charged, and collected on unpaid balances
Interest and Principal Repayments	Repayments made on principal amounts and/or interest from interest bearing loans or borrowings
Prudential Ratios	Financial ratios that measure Council's current performance against established limits. These assist in managing the risk of Council's borrowings.
Strategic Significance	A significant investment of council funds with benefit to multiple generations of residents

Associated Documents

- Not applicable

References

- Not applicable